

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 17, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER

SUBJECT: BUDGET MEMO # 29: FY 2003 FINAL REVENUE ADJUSTMENTS

ISSUE: FY 2003 Revenue Adjustments.

RECOMMENDATION: That City Council approve the following FY 2003 General Fund revenue and expenditure adjustments, which result in an increase of \$1.4 million as compared to the revenue estimates outlined in the Proposed FY 2003 budget document.

In summary, the recommended revenue adjustments for FY 2003 are:

- An increase of \$0.3 in the estimate of Real Property Tax Revenue, from \$88.4 million to \$88.7 million;
- An increase of \$0.4 million in the estimate of Personal Property Tax Revenue, from \$30.8 million to \$31.2 million;
- A decrease of \$0.5 million in the estimate of Penalties and Interest, from \$1.6 million to \$1.1 million;
- An increase of \$0.5 million in the estimate of Business License Tax Revenue, from \$21.4 million to \$21.9 million;
- An increase of \$0.5 million in the estimate of Other Miscellaneous Local Taxes, from \$4.0 million to \$4.5 million;
- A net increase of \$0.2 million in the estimate of Intergovernmental Revenues, from \$45.7 million to \$45.9 million;
- An increase of \$0.1 million in the estimate of Miscellaneous Non-tax Revenues; from \$0.4 million to \$0.5 million.

These revenue adjustments will be reflected on the final Add/Delete list.

DISCUSSION: The FY 2003 revenue estimates in the Proposed FY 2003 budget document were based on revenues and trends through January 2002. Staff continues to monitor actual revenues and adjusts the revenue projections for the current fiscal year in the context of the Monthly Financial Report (Attachment 1). Based on actual receipts and trends through the end of the third quarter of 2002 (January, February and March), the FY 2003 revenue estimates are recommended to be adjusted as follows:

- An increase of \$0.3 in the estimate of Real Property Tax Revenue, from \$88.4 million to \$88.7 million. FY 2003 revenues have been increased from the previous projections to reflect the delay in collection of a portion of FY 2002 real property tax revenues, which were originally anticipated in FY 2002, but will be collected in FY 2003 instead. The delay relates to the filing for Chapter 11 financial reorganization by the City's Waste-to-Energy plant operator.
- An increase of \$0.4 million in the estimate of Personal Property Tax Revenue, from \$30.8 million to \$31.2 million, to reflect projections based on receipts through March 31, 2002. The increase is primarily the result of an increase in the number of vehicles to which taxes have been billed and paid to date in FY 2002, and an increase in the value of both vehicles and business personal property.
- A decrease of \$0.5 million in the estimate of Penalties and Interest, from \$1.6 million to \$1.1 million, which reflects the impact of changes made by City Council at its April 13, 2002, legislative session regarding late filing penalties for both business and vehicle personal property taxes.
- An increase of \$0.5 million in the estimate of Business License Tax Revenue, from \$21.4 million to \$21.9 million, to reflect revised projections based on revenues received through March 31, 2002. The revenues in the FY 2003 proposed budget were projected prior to the primary tax due date of March 1. Collections to date reflect an increase in the gross receipts of several business sectors, including the service and retail sectors. These increases were partially offset by a decrease in the gross receipts of wholesalers.
- An increase of \$0.5 million in the estimate of Other Miscellaneous Local Taxes, from \$4.0 million to \$4.5 million, to reflect revised projections based on revenues received from telecommunications firms.
- An increase of \$0.2 million in the estimate of Intergovernmental Revenues, from \$45.7 million to \$45.9 million, to reflect more accurate funding estimates from the Commonwealth and personal property tax revenues received to date. Decreases in Compensation Board funding and Law Enforcement Aid (HB 599) are offset by a projected increase in reimbursements from the Commonwealth for vehicle personal property tax relief. The increased number and value of vehicles in the City impacting the locally collected personal property tax revenue will result in an increase in the revenue received from the Commonwealth as part of the Personal Property Tax Relief Act (70 percent of motor vehicle tax bills for most vehicles). The \$0.3 million increase in the

City's car tax reimbursement is partly offset by a loss of HB 599 funding (\$0.1 million) and a slight loss of Compensation Board funding of \$0.016 million. Conservative estimating for the FY 2003 Proposed Budget, in light of the uncertainties regarding State funding, helped to mitigate the impact that State budget cuts had on the most current General Fund revenue estimates. However reductions will be realized in departmental Special Revenue Funds, particularly in the juvenile justice area.

- An increase of \$0.1 million in the estimate of Miscellaneous Non-tax Revenues; from \$0.4 million to \$0.5 million, to reflect revenues projected to be received from the new Dominion Telecom, Inc., fiber optic right-of-way agreement.

FISCAL IMPACT: The net fiscal impact of these final FY 2003 revenue adjustments is an increase in the FY 2003 General Fund revenue projections of \$1.4 million (Attachment 2). The increase in total General Fund revenues results in a decrease in the appropriation from fund balance required to balance the FY 2003 General Fund budget, from \$9.8 million to \$8.4 million (Attachment 3).

It should be noted that for FY 2002, the new revenue projections discussed in the Monthly Financial Report (Attachment 1) total \$1.3 million higher than prior projections. Based on preliminary data for the first nine months of FY 2002, projected positive variances (i.e., revenues in excess of budget) are currently projected to be \$9.0 million. These \$1.3 million in projected revenues are recommended to be added to the originally projected extra revenues for FY 2002 of \$7.7 million, which were used to balance the FY 2003 Proposed Operating Budget and to provide increased cash capital for needed City and Schools capital projects in the FY 2003 to FY 2008 Proposed Capital Improvement Program. When consolidating the net changes in revenue projections for both FY 2002 (\$1.3 million) and FY 2003 (\$1.4 million), the total net change equals \$2.7 million. This has the effect of reducing the prior year funds used to balance the FY 2003 budget by \$1.4 million, as well as increasing the FY 2002 ending Undesignated Fund Balance by \$2.7 million

ATTACHMENTS:

- | | |
|----------------|---|
| Attachment 1 - | Monthly Financial Report for period ending March 31, 2002 |
| Attachment 2 - | Revised Summary of Budgeted General Fund Revenues and Other Financing Sources |
| Attachment 3 - | Revised Statement of Undesignated Fund Balance |

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 18, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER^S

SUBJECT: MONTHLY FINANCIAL REPORT FOR THE PERIOD ENDING
MARCH 31, 2002

ISSUE: Receipt of the City's Monthly Financial Report for the period ending March 31, 2002.

RECOMMENDATION: That City Council receive the following Monthly Financial Report for the period ending March 31, 2002.

DISCUSSION: This report provides financial information on revenues and expenditures of the General Fund for the period July 1, 2001 through March 31, 2002. The report also presents revenues and expenditures for the same period for Fiscal Year 2001 for comparative purposes (Attachments 1 and 2), and provides a summary of selected economic indicators (Attachment 3). FY 2002 revenues through March 31, 2002 totaled \$230.8 million. As discussed in previous months' financial reports, some expected revenue decreases in certain revenue categories have become a reality. General Fund expenditures through the end of March totaled \$228.0 million, or 8.8 percent higher than expenditures at the same time last year. The three primary reasons for the expenditure increase relate to an increase in budgeted transfers to the City's capital project funds, an increase in budgeted transfers to the School Operating Fund, and a planned increase in vehicle replacement funding.

Year-to-date revenues reflect the impact (in transient lodging, restaurant meals and sales taxes) from the terrorist attack on the Pentagon, the three-week suspension of flights into and out of Reagan Washington National Airport, the gradual resumption of flights, and reduced business travel (down nationwide). While tourism and business travel have increased from their extremely low levels of mid-September, levels remain below last year at this time. This is because tourism and business travel levels continue to be impacted by the status of Reagan Washington National Airport (phase III flight levels began on January 2, 2002, and were authorized to increase to 77 percent of pre-September 11 flight levels on March 1, 2002, and to 100 percent flight levels on April 15), airline scheduling and the public's perceptions of flying safety, as well as the state of the national economy and corporate travel budgets. In addition, after the Federal Reserve cut short-term interest rates for the eleventh time in twelve months to the lowest level in 40 years, the City's earnings on its short-term investments also have declined.

As discussed in the Proposed FY 2003 Operating Budget, projecting current year revenues is a much more complicated task with more unknowns than usual. Finance and OMB staff have made projections of the revenues by category. While projecting City General Fund revenue losses remains difficult, if the current rate of revenue shortfalls continues (about \$0.3 million per month), then the revenue shortfall in certain key revenue categories (sales, restaurant meals, transient lodging taxes and interest earnings) and for FY 2002 could cumulatively total approximately \$3.7 million by the end of FY 2002. However, real and personal property tax revenues, business license and recordation taxes and consumer utility taxes in FY 2002 are projected to exceed budgeted levels. In addition, expenditure budget savings arising from budget management actions instituted starting in October will help avoid a budget shortfall in FY 2002. In fact, these additional revenues and reduced expenditures are expected to produce a surplus that has been used to fund the FY 2003 Proposed Operating and Capital Budgets.

The City's unemployment rate has ranged from 2.7 percent in September to 3.6 percent in January before dropping to 3.3 percent in February. This is still higher than Arlington and Fairfax Counties. The cause of this higher unemployment is likely due to a higher concentration of Alexandria residents in lower paying or airline-related service industry (hotels, restaurants, transportation, etc.) jobs, which continue to be impacted by September 11. While the 3.3 percent Alexandria unemployment rate for February is less than the Virginia 4.2 percent unemployment rate and less than the national rate of 5.7 percent, it is higher than the 1.6 percent Alexandria unemployment rate of February 2001.

REVENUES (Attachment 1): As of March 31, 2002, actual General Fund revenues totaled \$230.8 million. As discussed above, lower revenues from some taxes (such as transient lodging, sales and meals taxes) reflect the effects of the events of September 11, as well as higher office vacancy rates and higher unemployment. Lower interest rates have already impacted interest earnings. However, personal property, business license, consumer utility and recordation tax collections, coupled with increased CY 2002 real estate assessments, will more than offset these tax losses.

As part of the preparation of the FY 2003 Proposed Budget, City staff undertook a detailed analysis of the City revenue trends and have reprojected FY 2002 revenues. Based on preliminary data for the first nine months of the fiscal year, projected positive variances (i.e., revenues in excess of budget) are currently projected to be \$9.0 million. This is an increase of \$1.3 million from last month's projection. Of these additional revenues, \$7.7 million was used to balance the FY 2003 Proposed Operating Budget, as well as provide a source for increased cash capital for needed City and Schools Capital Projects in the FY 2003 to FY 2008 Proposed Capital Improvement Program.

Staff notes that this preliminary projection is based on only nine months of activity and will continue to monitor revenues and update projections on a monthly basis through the end of the fiscal year.

The following chart and text describes the sources of the \$9.0 million in net positive variances:

FY 2002 PROJECTIONS
(Amounts in millions)

	<u>FY 2002 BUDGET</u>	<u>FY 2002 BUDGET PROJECTIONS</u>	<u>BUDGET VERSUS PROJECTIONS</u>
Real Property	\$ 163.6	\$ 166.5	\$ 2.9 ¹
Personal Property-local share	29.6	38.2	8.6
Penalties and Interest	2.0	1.6	(0.4)
Sales Tax	21.6	20.7	(0.9)
Consumer Utility Tax	15.0	16.6	1.6
Business License Tax	20.8	21.3	0.5
Transient Lodging Tax	6.2	4.7	(1.5)
Restaurant Meals Tax	8.7	8.4	(0.3)
Tobacco Taxes	1.6	1.6	-
Motor Vehicle License Tax	2.3	2.3	-
Recordation Taxes	1.4	2.3	0.9
Other Local Taxes	3.5	4.3	0.8
Intergovernmental	43.5	45.3	1.8
Fines and Forfeitures	4.4	3.8	(0.6)
Licenses and Permits	3.8	4.0	0.2
Charges for City Services	9.1	9.0	(0.1)
Use of Money and Property	9.2	8.2	(1.0)
Other Revenue	0.4	0.4	-
Fund Balance	<u>3.5</u>	<u>-</u>	<u>(3.5)</u>
Total - Revenue Projections	\$350.2	\$359.2	\$ 9.0
			<u>7.7²</u>
			1.3 ³

¹ Reflects proposed 2-cent rate reduction to \$1.09

² Funds used to balance the FY 2003 proposed operating and capital budget

³ Changes from prior projections reflect: real property (-0.3), personal property (+0.4), business license (+0.5), other local taxes (+0.5), intergovernmental (+0.1), and other revenue (+0.1)

Real Estate Taxes: Second half CY 2001 real estate taxes were due November 15. Revenues to date are \$79.9 million, or 8.4 percent higher than collections at this time last year. As projected in the FY 2002 Budget, real estate billings totaled \$81.0 million, or 10 percent higher than billings in the prior year. The difference between the revenue collected and the amount billed relates to the timing of collection of delinquent taxes. First half CY 2002 real estate taxes will be due on June 15 and will be driven by the CY 2002 assessments, which increased an average of 11.2 percent. This assessment increase, at the proposed lower \$1.09 real estate tax rate, would increase expected FY 2002 real estate tax revenues to \$166.8 million, or \$3.2 million above the FY 2002 budget, which assumed a 5 percent increase in the real estate tax base in CY 2002. In addition, the City's waste-to-energy plant operator has recently filed for Chapter 11 reorganization. As a result, staff has reduced the FY 2002 real estate revenue estimate to \$166.5 million, a decrease of \$0.3 million from the previous projections to reflect the delay in collection of a portion of these taxes, which are likely to be collected in FY 2003 instead of FY 2002.

Personal Property Taxes: Personal property tax bills were due on October 5, 2001. Personal property tax revenues consist of both personal property (primarily vehicles) and business property (machinery, equipment, computer and furniture). As shown in the following chart, to date, the City has collected \$37.6 million for personal property taxes collected directly by the City (\$14.1 million relating to motor vehicles, and \$23.5 million to business personal property) and an additional \$20.7 million of intergovernmental revenue that the City collected from the Commonwealth under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA). The State's share of the local personal property tax payment this year is 70.0 percent of most taxpayers' tax bill. The State's share for FY 2001 was 47.5 percent.

The actual to date revenues for FY 2002 represents a \$10.8 million, or 22.7 percent, increase when compared to receipts collected at the same time last year. Included in this increase is \$7.8 million, which the City received from the Mirant Corporation (an independent wholesale power producer) for business personal property tax on the personal property (specifically machinery and tools) purchased from the Potomac Electric Power Company (PEPCO), a public service corporation, at the end of calendar year 2000. As explained at the last Council Retreat, under Virginia Code, the personal property (including machinery and tools) of a public service corporation is taxed at the real estate tax rate (such as at \$1.09). For calendar year 2002, State law did not treat independent power producers as a public service corporation, and as a result Mirant will pay taxes on its machinery and tools at a tax rate of \$4.50. State law in 2003 states that wholesale power distributors like Mirant are to be taxed similar to public service corporations. There is at least one other locality in the State where the same taxation situation occurred. Until the end of February, Mirant could have filed an appeal to the City on the machinery and tools assessment. They did not file, however, further appeal options are available to them. Any basis of appeal is likely to focus on what is assessable as machinery and tools and not on the rate of taxation.

The remaining personal property tax revenue increases primarily result from a 1.4 percent increase in the number of vehicles to which taxes have been billed and paid this year compared to

last year, a 4.0 percent increase in the average vehicle value, and a 10 percent increase in business personal property tax revenues (excluding Mirant). Based on collection patterns and the one time revenue, staff currently projects that total personal property collections will be at least \$59.2 million, comprised of \$38.2 million in local collections and \$21.0 million from the State. This is an increase of \$9.5 million (\$8.6 million for local collections and \$0.9 million from the State) over the original budget and \$0.7 million higher (\$0.4 million in personal property tax and \$0.3 million from the State) than the previous projections. Staff will continue to monitor these revenues and will recommend adjustments, as warranted, in the context of the FY 2003 proposed budget.

(amounts in millions)

Personal Property Tax (in millions)	Projection FY 2002	Budget FY 2002	Actual to Date FY 2002	Actual to Date FY 2001
Personal property tax collected by City	38.2	29.6	37.6	34.4
Commonwealth reimbursement	<u>21.0</u>	<u>20.1</u>	<u>20.7</u>	<u>13.1</u>
Total	\$59.2	\$49.7	\$58.3	\$47.5

Penalties and Interest: Penalties and interest represent payment on delinquent taxes, primarily for real estate and personal property. Collections to date, in the amount of \$1.2 million, are \$0.1 million lower than collections at this time last year. Penalties and interest collections are highly variable, with last year's tax collection initiatives representing a very high collection year. Also, with decreased personal property tax bills due to the State-funded tax relief, more taxpayers are most likely paying their bills on time, which results in reduced penalties and interest. Based on collections to date, staff estimates FY 2002 penalties and interest revenues will total approximately \$1.2 million, which is \$0.4 million less than the original FY 2002 budget estimate.

Local Sales and Use Taxes: Businesses remit sales tax to the Commonwealth within 30 days of the end of the month in which the sales occurred. The Commonwealth wires the City's portion of the sales tax approximately one month later. Sales taxes received by the City in February represent revenues collected by merchants in January and reflect a 1.2 percent decrease when compared to January 2001. Year-to-date revenues through the end of March, in the amount of \$11.8 million, have decreased slightly from the prior year. Within the last few days we have received the April sales tax payment from the State (for February sales). The 2002 April payment totaled \$1.5 million, which is practically the same as the April 2001 payment.

Therefore, when next month's Monthly Financial Report is compiled, it will show a year-to-date amount of \$13.3 million, or \$0.1 million less than the prior year-to-date figures.

In checking tax payments in detail on a business-by-business basis, City staff have concluded that the variability in late payments by a few major businesses can affect the percentage increase or decrease statistics in the sales tax areas. As a result, small percentage changes for each month are less meaningful than year-to-date statistics. The conclusion for sales tax revenues is that while they may be up slightly in one month and down slightly in the next month, year-to-date sales tax revenues through the end of March sales taxes are running even with last year's collections. At this time it is projected that FY 2002 sales tax receipts will total \$20.7 million, which would be equal to FY 2001 collections but \$0.9 million less than budgeted for FY 2002.

Consumer Utility Taxes: Consumer utility taxes are collected by the utility companies one month after billing and are remitted to the City the following month. The consumer utility tax revenue in this report represents utility services provided to consumers through January.

**City of Alexandria Consumer Utility Tax Receipts
Through January 31, 2002 and 2001**

Utility	FY 2002 Year to Date Receipts	FY 2001 Year to Date Receipts	Increase/ (Decrease)	Notes
Telephone - Tax on Local Service	\$4,514,691	\$4,133,287	\$381,404	See following paragraph
Electricity	3,514,216	3,503,837	10,379	
Water	1,313,320	1,203,735	109,585	
Natural Gas	1,396,156	1,201,089	195,067	See following paragraph

Telephone tax collections include approximately \$50,000 in revenue from one provider that paid early, and a payment of almost \$100,000 from one provider for two years of back taxes. The remaining difference is attributed to the timing of receipts from telephone companies, an increase in the number of companies providing local telephone service, an increased number of lines for new development and additional phone lines for existing customers. As a result of mandatory State legislation, the basis of calculating the utility tax on gas and electric utilities was changed from a cost basis to a consumption basis effective January 1, 2001. Prior to the change, apartments that received natural gas service through a group meter were not taxed on a per unit basis on their minimum bill. However, after the change, these group metered apartments were assessed a per unit minimum tax. The increase in utility tax on natural gas can be primarily

attributed to this change. Based on collections to date, staff projects utility taxes will be \$16.6 million, an increase of \$1.6 million over the original budget.

Business License Taxes: The City's business license tax (for most taxpayers) was due March 1 for CY 2002. Collections as of March 31, 2002, in the amount of \$18.4 million, are \$1.4 million, or 8.0 percent, higher than collections at the same time last year. An analysis of the tax return from businesses, which have reported their gross receipts on time, show an increase in gross receipts from the service sector of 9.7 percent, including an increase in gross receipt of professional service of 18.8 percent. Gross receipts of the retail sector increased 1.4 percent, while gross receipts of wholesalers decreased 11.3 percent. Similar to last year, many firms did not file by the March 1 due date. Staff will contact these firms as well as the largest firms that show a significant decrease in gross receipts and taxes paid. Staff estimates that they will collect an additional \$2.9 million in the remainder of the year, including \$1.4 million in quarterly payment and \$1.5 million from non-filers, delinquent taxpayers and audits of tax return. Staff's current estimate for business tax receipt for FY 2002 is \$21.3 million, which is \$0.5 million over the approved budget and the previously projected total for the fiscal year. Staff will continue to monitor these revenues and will recommend adjustments as warranted.

Transient Lodging Taxes: Transient lodging taxes are remitted to the City within one month after collections. Therefore, the revenue reflected in this report represents collections by hotels through February. Collections of both the 5.5 percent and \$1 transient lodging tax for the month of February were 19.1 percent, or \$72,132, less than collections a year ago. The tax returns for two major hotels were not received until after this report was prepared, and if these hotel revenues were included in the February data, collection of transient lodging tax would be down 15.6 percent. On a year-to-year comparison it appears that this drop is due to both lower taxable occupancies (down about 6.3 percent) and lower room rates (down about 10.7 percent) when compared to February 2001. Budget and mid-range hotels also had higher vacancy rates than full-service hotels. As discussed above, these revenues are still subject to a great deal of uncertainty and are likely to fall significantly short of initial budget expectations of a 6 percent growth in the months ahead. Based on collections to date, staff projects that transient lodging taxes will be \$4.7 million, a decrease of \$1.5 million below the Approved FY 2002 Budget.

Restaurant Meals Tax: Meals and alcoholic beverage taxes are due to the City within 30 days of the month the sales occurred. Collections for sales through February were substantially the same as collections through February 2001. However, 34 restaurants (an unusually large number) did not file their return by the March 31 due date. Of the 28 restaurants that were late last month, six (6) were still delinquent as of March 31. Staff are pursuing collections. As discussed above, restaurants are also dependent on tourists, and the events of September 11 and the general slowdown in business travel have negatively impacted many restaurants. These revenues are still subject to a great deal of uncertainty and are likely to fall short of budget expectations of a 4 percent growth in FY 2002. Based on collections to date, staff projects that restaurant meals taxes will be \$8.4 million, a decrease of \$0.3 million below the Approved FY 2002 Budget.

Real Estate Recordation Taxes: Real estate recordation tax revenues are collected by the Clerk of the Circuit Court and remitted to the City the following month. Collections to date in FY 2002, in the amount of \$1.7 million, have increased \$0.4 million, or 34.8 percent, over collections at this time last year. The increase is primarily attributed to several large commercial property sales at the beginning of the fiscal year, as well as additional home sales and refinancings. Staff projects that recordation taxes will be \$2.3 million, an increase of \$0.9 million over the Approved FY 2002 Budget.

Other Local Taxes: The increase in other local taxes is primarily attributed to an increase in the City's E-911 tax from \$0.25 per line to \$0.50 per line, effective September 15, 2000. At this time, staff projects that FY 2002 other local taxes will total \$5.3 million, which is \$0.8 million more than budgeted for FY 2002 and \$0.5 million greater than the previous projection due to higher collections being received from telecommunications firms.

Revenues from the Federal Government: The City's General Fund revenues from the federal government are primarily for federal prisoner per diem. The City has billed \$3.8 million for housing federal prisoners through the period ending March 31, 2002. However, only \$3.4 million has been received as of March 31. The federal government generally pays the City for housing federal prisoners between 45 and 60 days after the end of the billing period. Based on collections to date, staff projects that revenues from the federal government will total at least \$5.2 million, an increase of \$0.9 million over the Approved FY 2002 Budget.

Revenues from the Commonwealth: Revenues from the Commonwealth increased \$8.3 million, or 31.9 percent, over the prior year. This is primarily the result of an increase in reimbursements from the Commonwealth for vehicle personal property tax relief. As discussed above, the FY 2002 Budget included \$20.1 million to reflect the Commonwealth's payment to the City of 70 percent of motor vehicle tax bills for most vehicles. In FY 2001, the City was reimbursed 47.5 percent of the tax bill for most vehicles. As of March 31, 2002, the City has billed and received \$20.7 million from the Commonwealth, an increase of \$7.6 million over that received in FY 2001. Based on collections to date, staff projects that revenues from the Commonwealth for the car tax reimbursement will be \$21.0 million, an increase of \$0.9 million over the Approved FY 2002 Budget, and \$0.3 million over the previous projections.

While car tax reimbursements will exceed budget expectations, reduction in Law Enforcement Aid of at least \$0.2 million is projected as part of the State's budget reduction plans for FY 2002. This will be countered to some degree by a \$0.2 million increase in highway maintenance revenues. Based on these collections patterns, staff currently projects that revenues from the Commonwealth (including car tax reimbursements) will total \$40.2 million, an increase of \$0.9 million (including \$0.9 million for car tax reimbursements) over the Approved FY 2002 Budget and nets to \$0.1 million higher than the previous projections. This reflects the \$0.3 million increase in car tax reimbursement discussed in the personal property section of this report, less a \$0.2 million further reduction in Law Enforcement Aid.

Fines and Forfeitures: Revenues from the collection of fines decreased \$0.2 million, or 6.2 percent, below collections at this time last year. This is attributed in part to the timing of collection of parking revenues, as well as reduced parking fines from the provision of free parking at meters on City streets and in City parking garages after 5 p.m. and on weekends from October through the end of December. Staff projects that revenues from fines and forfeitures will be \$3.8 million, a decrease of \$0.6 million below the Approved FY 2002 Budget.

Licenses and Permits: Revenues year-to-date total \$3.1 million, less than one percent higher than collections at this time last year. Staff projects that revenues from licenses and permits will be \$4.0 million, an increase of \$0.2 million over the Approved FY 2002 Budget.

Revenue from Use of Money and Property: Year-to-date interest revenues decreased \$1.9 million compared to last fiscal year, largely due to declining market interest rates on City short-term investments. Based on current interest rates, staff projects that FY 2002 interest revenue will continue to fall significantly short of the budgeted \$9.2 million. This large decrease is due to the substantial federal fund rate reductions approved by the Federal Reserve Board (from 5.50 percent in February 2001 to 1.69 percent in March 2002). Based on current interest rates, staff projects that revenue from money and property will be \$8.2 million, a decrease of \$1.0 million below the Approved FY 2002 Budget.

Other Revenue: Other revenues include gifts and donations, damage recoveries and recovered costs. On April 9, 2002 City Council approved the receipt of \$0.1 million from Dominion Telecom, Inc. for fees associated with installation of fiber optic cables in the public right of way. Accordingly, staff has increase the projection of other revenues by \$0.1 million, offsetting the previous projection of a \$0.1million decrease in this category.

EXPENDITURES (Attachment 2): As of March 31, 2002, actual General Fund expenditures totaled \$228.0 million, an increase of \$18.4 million, or 8.8 percent, over expenditures for the same period last year. The increase is primarily attributed to increases of \$2.6 million for cash capital, \$4.6 million in budgeted transfers to the School Operating Fund, and \$1.7 million in annual equipment replacement funding charges made at the beginning of the fiscal year. While most of the costs associated with the September 11 terrorist attack, such as Police and Fire overtime, will be reimbursed by the federal government and will not be General Fund expenses, estimates of costs that may or may not be reimbursed by the federal and State governments are still being negotiated. This is also the case for capital and operating costs related to the higher State of security at the City's Public Safety Center, where federal reimbursement of additional City expenses is also being sought. Except as noted below, this expenditure pattern reflects the Approved FY 2002 Budget.

In October, with a high degree of uncertainty over the effect on revenues and expenditures of the September 11th terrorist attack and the subsequent closing and only gradual phasing back in of flights at Reagan Washington National Airport, the City instituted a contingency savings plan process for City departments, as well as instituted a selective hiring freeze. The intent of these

actions was to identify personnel and non-personnel savings that could be instituted if needed, as well as to create savings by holding non-critical vacant positions open. It is expected that these savings plans will produce about \$2 million in operating budget savings, as well as about a \$3 million savings from capital projects in FY 2002. While the selective hiring freeze has been lifted, City non-public safety departments have been directed to underexpend by at least 2% of their budgets for FY 2002. It should be noted that some of the capital savings are short-term, as they derive from project deferrals which will need to be scheduled and funded for later years in the Capital Improvement Plan.

Other Planning Activities: General Fund expenditures in this category reflect all quarterly contribution payments to community agencies.

Judicial Administration: General Fund expenditures in this category reflect all quarterly contribution payments to regional organizations that provide legal, correctional and animal welfare services.

City Attorney: Expenditures to date reflect outside legal fees which are budgeted in a non-department account and charged to the City Attorney's office. Staff will recommend an appropriations transfer in the context of the June transfer resolution to match these expenditures with budget authority.

Registrar: Expenditures to date reflect budgeted costs for the State's gubernatorial election and costs associated with the March 19, 2002 School Board District "C" Special Election.

Fire: Expenditures to date reflect annual equipment replacement charges made at the beginning of the fiscal year.

Police: Expenditures to date reflect annual equipment replacement charges made at the beginning of the fiscal year.

Transit Subsidies: The decrease from FY 2001 reflects increased State transit aid and gas tax revenue that allowed the City to reduce some of its planned General Fund payments to the Washington Metropolitan Area Transit Authority operating budget for FY 2002.

Mental Health/Mental Retardation/Substance Abuse: Expenditures to date reflect annual equipment replacement charges made at the beginning of the fiscal year.

Recreation: Expenditures reflect seasonal employee costs incurred during the summer.

Schools: For FY 2002 the City Council approved a \$107.3 million transfer to the City Schools, and it is expected that the transfer will be fully utilized by the Schools. At this time the Schools are projecting about a \$0.7 million State revenue shortfall, down from earlier expectations of a \$1.2 million shortfall, due to expected State aid reductions, as well as a greater than expected mid-

year decline in student enrollment which may result in a reduction in State-per-pupil funding. The Schools have put in place a number of measures which they believe should keep their FY 2002 budget in balance and offset the expected reduction in State aid. These include a cut of unencumbered non-personnel funds, a review of all vacant positions on a case-by-case basis and the freezing of non-critical positions, and eliminating all non-essential overtime.

Other Education Activities: Expenditures to date reflect all the quarterly contribution payments to the Northern Virginia Community College.

Non-Departmental: General Fund expenditures in this category reflect budgeted expenditures for the City's contributions to the old public safety pension plan, senior citizens' rent relief, payment for the City's liability insurance, and the public safety radio system maintenance charges.

Cash Matches (MH/MR/SA, Human Services, Library and Miscellaneous Grants): To comply with grant awards, the City's share funding is transferred from the General Fund to the Special Revenue Fund at the end of the fiscal year.

ATTACHMENTS:

Attachment 1 - Comparative Statement of Revenues

Attachment 2 - Comparative Statement of Expenditures & Transfers by Function

Attachment 3 - Selected Economic Indicators

STAFF:

Mark Jinks, Assistant City Manager for Fiscal and Financial Affairs

D. A. Neckel, Director of Finance

Laura Triggs, Deputy Director of Finance/Comptroller

Summary of Budgeted General Fund Revenues and Other Financing Sources

	FY 2001 <u>Actual</u>	FY 2002 <u>Budget</u>	FY 2002 <u>Revised</u>	FY 2003 <u>Revised</u>
General Fund				
General property tax revenue				
Real property tax	152,560,694	163,620,000	166,510,000	178,172,000
Personal property tax	35,222,613	29,597,220	38,236,000	31,184,000
Penalties and interest	<u>1,992,370</u>	<u>2,000,000</u>	<u>1,600,000</u>	<u>1,100,000</u>
Total general property tax revenue	189,775,677	195,217,220	206,346,000	210,456,000
Other local tax revenue				
Local sales tax	20,730,807	21,600,000	20,700,000	21,300,000
Utility tax	15,997,085	15,000,000	16,600,000	17,100,000
Business licenses	20,762,586	20,800,000	21,300,000	21,900,000
Motor vehicle licenses	2,247,172	2,300,000	2,300,000	2,300,000
Recordation	2,028,522	1,400,000	2,300,000	1,500,000
Tobacco	1,607,292	1,600,000	1,600,000	1,600,000
Transient lodging	5,827,803	6,200,000	4,700,000	5,250,000
Restaurant food	8,466,964	8,700,000	8,400,000	8,700,000
Other miscellaneous	<u>4,058,541</u>	<u>3,528,000</u>	<u>4,328,000</u>	<u>4,468,000</u>
Total other local tax revenues	81,726,772	81,128,000	82,228,000	84,118,000
Non-tax revenue				
Licenses, permits, and fees	4,065,880	3,800,000	4,000,000	4,000,000
Fines and forfeitures	4,116,463	4,376,000	3,782,000	3,882,000
Use of money and property	10,418,646	9,208,730	8,214,000	6,254,000
Charges for services	8,711,053	9,068,600	8,991,800	9,863,800
Intergovernmental revenues	37,679,452	43,508,000	45,291,000	45,905,800
Miscellaneous	<u>464,686</u>	<u>359,000</u>	<u>355,000</u>	<u>455,000</u>
Total non-tax revenue	<u>65,456,180</u>	<u>70,320,330</u>	<u>70,633,800</u>	<u>70,360,600</u>
Total General Fund revenues	336,958,629	346,665,550	359,207,800	364,934,600
Other financing sources (uses)				
Appropriation from City fund balance		3,506,000	0	8,376,644
Appropriation from ACPS - component unit fund balance		*	*	*
Total General Fund revenues and other sources	336,958,629	350,171,550	359,207,800	373,311,244
	=====	=====	=====	=====

- * The ACPS - component fund balance appropriation is included in special revenue funds and not considered a General Fund revenue in the FY 2002 approved budget or the FY 2003 proposed budget. The appropriation is \$2,017,801 in FY 2002 and \$568,041 in FY 2003.

Statement of Estimated Undesignated Fund Balance

at June 30, 2002

Components: Unreserved Fund Balance (Note: columns 1 plus 2 equal total unreserved fund balance)			
	(1) Undesignated Fund Balance	(2) Designations	(3) Unreserved Fund Balance
Fund Balance as of June 30, 2001 (per Comprehensive Annual Financial Report)	\$22,519,957	\$33,305,530	\$55,825,487
Add to total fund balance the projected variance in General Fund revenues for FY 2002/*	9,036,250		9,036,250
Add to total fund balance the projected variance in General Fund expenditures for FY 2002/**	5,700,000		5,700,000
Less: Expected expenditure of unreserved fund balance designated in FY 2001 for events occurring subsequent to June 30, 2001			
Capital projects designation		(7,500,000)	(7,500,000)
Incomplete Operating Fund Projects		(890,895)	(890,895)
Changes in Designations at June 30, 2002 (These changes in designations do not impact unreserved fund balance.)			
Add: Net change in balancing appropriation for the FY 2003 operating budget /***	(4,870,644)	4,870,644	
Less: Recommended additional designation for capital projects contained in the FY 2003-FY 2008 Capital Improvement Program beyond \$9.2 million previously designated	(6,400,000)	6,400,000	
Sum of above changes to show Estimated Fund Balance at June 30, 2002	<u>\$25,985,563</u>	<u>\$36,185,279</u>	<u>\$62,170,842</u>
Estimated Fund Balance as % of FY 2002 General Fund Revenue	7.2%		17.3%
Target per financial policies	5.5%		10.0%

Notes:

- /* FY 2002 projected variance based on projected FY 2002 revenues of \$359,207,800 less the FY 2002 Approved revenue budget of \$350,171,550, for a net positive variance of \$9,036,250.
- /** FY 2002 projected variance based on projected FY 2002 expenditures compared to the FY 2002 Amended Budget of \$350,171,550.
- *** The City does not anticipate using the FY 2002 balancing appropriation from Fund Balance of \$3,506,000. The FY 2003 balancing appropriation results in an increase in the designation for the upcoming budget of \$4,870,644, from \$3,506,000 in FY 2002 to \$8,376,644 designated for the fiscal year 2003 budget.